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October 27, 2004

Ms. Jean Gray
Assistant Regional Manager for Power Marketing
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Desert Southwest Customer Service Region
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Re: Comments on September 27, 2004 Proposed Section 12 and the Parker-Davis Project Contract Extensions

Dear Jean:

SRP thanks you for the opportunity to comment on the proposed Section 12 language distributed by your letter of September 27, 2004. We appreciate Western's policy of open dialog with its customers and its careful consideration of customer comments.

SRP has participated in discussions with Western and other Parker-Davis contractors and has provided written comments to Western on the proposed Parker-Davis Project contract amendment, including previous versions of Section 12 and advanced funding proposals. We have also reviewed the recent exchanges of correspondence between Western and its customers on these matters.

SRP understands there are certain circumstances involving changes in a contractor's business relationships and structure in which Western believes it lacks sufficient authority under the current contracts to directly address. The proposed new Section 12 is intended to address those circumstances. While we understand Western's desire to establish clear authority to address such issues, as we understand it, Western has been able to successfully address these issues in the past without the benefit of Section 12 language. While significant improvements have been made in the Section 12 language, we believe the language proposed in your September 27 letter is still too broad and vague. The language still provides the Administrator of Western the right to unilaterally determine what constitutes a change in a contractor's status and what remedies are appropriate, including termination of their contract. We appreciate that Western has addressed in comments and correspondence the contractor's right to appeal the decision of the Administrator and SRP would like that right explicitly addressed in the contract if a form of Section 12 remains in the agreement. If Western has specific circumstances it desires to address with Section 12, we will be happy to work with you to develop appropriate language, but in our view, Section 12 as currently drafted is still too broad to include in the amendment. Additionally, we understand

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other contractors have questioned the legal basis for the Section 12 language under Reclamation law. It is important that the legal questions be fully addressed before final contract amendments are offered and executed.

SRP's understanding of the "advanced funding" proposed by Western is that it is simply a shifting of contractors' payments by one or two months to improve Western's cash flow and is not intended to circumvent the existing Advancement of Funds Contract and Western's obligations thereunder. If that is in fact Western's intention, SRP would like to see a clear statement of that in the contract amendment. If our understanding is not correct, please provide clarification.

SRP would like to see this process brought to a close as quickly as possible so Western and the Parker-Davis contractors can proceed with execution of the amended contracts. We believe it would be productive for Western to convene a customer meeting to discuss these outstanding issues after this round of customer comment letters are received and posted on Western's website and all have had an opportunity to review them.

Again, we appreciate the opportunity to comment and look forward to working with you to resolve these remaining issues.

Sincerely,

A handwritten signature in black ink, reading "Mark S. Mitchell". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Mark S. Mitchell

Manager, Power Marketing

cc: Tyler Carlson
Michael S. Hacskeylo
Parker-Davis FES Contractors (by email)